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New Push on Mortgage Relief

Treasury Seeks to Increase Permanent Modifications; Borrowers Fault Companies

By RUTH SIMON

In the latest move to bolster its \$75 billion foreclosure-prevention plan, the Obama administration on Monday will outline new efforts designed to increase the number of borrowers who receive mortgage relief.

The Treasury Department on Monday will announce plans to appoint officials to monitor the actions of the largest mortgage servicing companies on a daily basis. It also will announce it is requiring mortgage companies to develop and report to the administration their plans to increase the number of completed modifications, a Treasury spokeswoman said.

While more than 650,000 borrowers have been given trial mortgage modifications under the plan, few borrowers have received permanent modifications. Many borrowers complain that it is difficult to get a permanent fix even once they have made trial payments; some have been required to send in duplicate paperwork or even ended up further behind on their mortgage payments.

The Treasury won't release the number of completed modifications until December, but the spokeswoman said it is in the "tens of thousands." It is too early to know what portion of trial modifications will become permanent, she added.

Based on their initial experience, some mortgage executives expect 25% to 35% of borrowers enrolled in the trial program to qualify for final modifications.

The stakes for the economy of a successful modification program are high. To stop further home price declines, some economists argue that the share of home sales that are foreclosures and other distressed properties must remain stable. Foreclosure sales fell this year because of moratoriums and stepped-up modification efforts, helping stabilize home prices.

The Obama administration program provides financial incentives for mortgage companies and investors to reduce loan payments to affordable levels for troubled borrowers. Borrowers first make reduced payments under a trial program. To receive a permanent modification, borrowers must make three payments during the trial period and provide a hardship affidavit and other documents.

For borrowers who do receive a trial modification, few are becoming permanent. Some borrowers can't make the required payments during the trial period, mortgage companies say, often because the reduced payment still isn't low enough or they have suffered another financial setback.

In other cases, borrowers in the trial program aren't providing a hardship affidavit and other necessary documents or the paperwork doesn't match the information provided verbally. In still other cases, the loan may not pass a "net present value test" used to determine whether a modification is less costly to the lender or investor than a foreclosure.

Meanwhile, the number of borrowers falling behind on their loan payments continues to outpace the administration's efforts to help them. Roughly 1.56 million loans that were current in March were at least 60 days past due in October, according to LPS Applied Analytics. That's more than double the number of trial modifications.

Mortgage companies have stepped up efforts to collect documents, but many borrowers say firms are frequently disorganized and ask repeatedly for the same paperwork or offer confusing information.

John Fitzpatrick, a home builder in Ohio, made his first \$1,464 trial payment in June. Three months later, Bank of America Corp. sent him a statement indicating he should pay \$2,038, his monthly payment before the trial modification. Mr. Fitzpatrick said he has continued to make the lower payment on the advice of his attorney. Mr. Fitzpatrick said he believes he has provided all the required documents; in mid-November, he sent in another set of papers at the mortgage company's request. A Bank of America spokesman said the statement with the higher payments "was sent out in error."

Some borrowers are ending up in worse shape after seeking help under the government program. Jennifer and James Pugliese, of Scranton, Pa., were struggling, but still current on their mortgage when Litton Loan Servicing offered them a trial modification that reduced their loan payments by nearly 50% to \$758. But after making successful trial payments, the couple was turned down for a final modification. Because the trial payments are considered partial payments if the modification fails, the Puglieses are now more than \$5,000 behind on their mortgage; their credit score dropped after Litton reported to the credit bureau that the couple had entered the Obama program.

"There is no way we can recover at this point," said Ms. Pugliese, who received a foreclosure notice last week. "We are pretty much resolved to losing the house or filing for bankruptcy." When their loan payments were cut, the couple used the extra cash to pay other debts, she says.

A spokeswoman for Litton, a unit of Goldman Sachs Group Inc., said: "Litton is following the program's guidelines for eligibility qualifications, modification trial periods and credit reporting. Loans that do not pass the net present value test are not eligible" for a modification under the Obama program.

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